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No. 99-767

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

YORK PRODUCTS, INC. and McCLARIN PLASTICS, INC.,

Petitioners,

v.

LRV ACQUISITION CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF FOR PETITIONERS

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Statutes:

35 U.S.C. § 112. 2

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35 U.S.C. § 285. 4

As explained hereinafter, the "questions presented" of Respondent LRV are certainly not the questions for which review is requested.

To begin with, it is to be noted that LRV has not, as indeed it cannot, contradict or dispute the succinct statement of the case, proceedings and facts, including the issues of infringement and validity, presented on pages 1-12 of the Petition. Instead, LRV attempts to justify the result in the District Court and CAFC by arguing that York and McClarin waived their right to review of patent invalidity and both the District Court and Federal Circuit only applied "controlling state law" to dismiss York's counterclaim. Those arguments are without merit.

FURTHER REASONS FOR GRANTING THE WRIT

I. LRV's First Argument

LRV's first argument, summarized at page 1 of LRV's Reply, boldly charges, "[York] did not pursue a counterclaim seeking a declaration of invalidity" when that is plainly incorrect. The record is indisputable that York pursued its counterclaim for unfair competition including the specific issue of invalidity as well as non-infringement and despite York's opposition and the submission of substantial evidence[1] from which a jury could find in favor of York on the issue, the District Court denied York the right to trial by jury. On March 4, 1998, the District Court ruled in favor of LRV on its motion for summary judgment dismissing York's

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[1] The evidence included two detailed written analyses provided to LRV before it filed suit that York's fastener did not infringe and moreover, LRV's patent was invalid. Assuming York established LRV's patent was invalid as well as not infringed a reasonable jury could readily find LRV's suit was objectively baseless when filed because LRV knew or should have known the charge of infringement was baseless when made. LRV never came forth with a pre-suit competent opinion to contradict those two analyses.

counterclaim. See App. B at 11a and Order of April 29, 1998, at R.B. App. B, 63a.[2]

To prove that the issue of patent invalidity was encompassed in York's counterclaim, one need only refer to the record, more particularly ¶ 4 of York's counterclaim, and the District Court's Memorandum and Order of March 4, 1998 in favor of LRV. (App. B, 11a). Paragraph 4 of York's Counterclaim states as follows:

> 4. Prior to filing the Complaint LRV, . . . [was] on actual and/or constructive notice that York's Clip-Lok fastener did not infringe the '775 patent and further, that the '775 patent was obtained without complying with the requirements of 35 U.S.C. § 112.

Failure to comply with § 112 renders a patent invalid which is what York intended to prove and the expert witness reports explained. That the District Court recognized that York intended to prove LRV's patent invalid as part of the counterclaim is established by reading the beginning of the Court's Memorandum (App. B, 11a), "These claims . . . are based on bad faith litigation [by LRV] for suing on a patent that is not infringed and is invalid . . .". While the District Court did little more other than to mention invalidity as an issue in the counterclaim, earlier the District Court agreed with LRV that the issue of validity could not be decided on summary judgment in favor of York and McClarin because there was a genuine dispute of material fact. *See* Petitioner's Brief, footnote 6 at page 4 quoting from LRV's Brief in Opposition.

On York's appeal to the CAFC, LRV did not contend that the court lacked jurisdiction to review the invalidity issue

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[2] Hereinafter reference to the appendix to LRV's Brief in Opposition is designated as R.B.App. followed by the appendix identification and page number, for example, R.B.App.1a or simply as LRV's appendix.

raised by York, rather in its brief LRV argued the following points with regard to the issue:

> 2. Whether McClarin/York have failed to offer any clear and convincing evidence that a person of ordinary skill in the art of the invention of the '775 Patent could not make or use the invention without undue experimentation or could not understand the claims of the patent when read in the light of the specification?
>
> 3. Whether McClarin/York have failed to offer any clear and convincing evidence of inoperability of the invention of the '775 Patent?

The record is indisputable that the CAFC decided that it lacked jurisdiction to decide patent invalidity without even a suggestion to do so from LRV and certainly not from York or McClarin.

Now, trying to take advantage of the result and avoid having the case returned to the Federal Circuit to review whether or not LRV's patent is invalid as a matter of law or to proceed to trial of the issue, LRV attempts to support and justify the result by reference to an event in the District Court that is both irrelevant and immaterial.

To set matters straight one need only review the chronology of events and rulings of the District Court.

On August 14, 1992, LRV filed suit in Ohio against York for infringement. In this action York filed a counterclaim.

On March 29, 1993, McClarin filed suit in Pennsylvania against LRV and LRV filed a counterclaim.

On August 19, 1993, LRV added McClarin as a defendant in the Ohio case.

On February 25, 1998, the District Court ruled in a Memorandum and Order that as a matter of law there was not infringement and denied the companion issue that LRV's patent was invalid as a matter of law. R.B.App. A, 57a.

On March 4, 1998, the District Court dismissed York's counterclaim as a matter of law (App. B, 34a), denying York a trial by jury including the issue of patent invalidity.

The foregoing rulings of February 25th and March 4th completely disposed of all of the issues raised by LRV, York and McClarin with regard to LRV's Complaint and Amended Complaint against York and McClarin, York's Counterclaim, McClarin's Complaint for Declaratory Relief, and LRV's Counterclaim; however, the District Court delayed entering a final judgment from which the parties could appeal.

After the foregoing rulings, on March 12, 1998, having already lost on its charge of infringement against both York and McClarin (and York having lost on its Counterclaim), LRV moved to have its patent declared valid as a matter of law even though its own claims and that of York and McClarin were already adjudicated.

On March 17, 1998, McClarin and York moved to recover attorneys' fees under 35 U.S.C. § 285.

York and McClarin filed a brief, the Declaration of a witness and exhibits in opposition to LRV's March 12th Motion.

With regard to LRV's March 12th motion, York contended that because LRV's claims of infringement already had been decided adverse to LRV and York's counterclaim decided adverse to York, there were no remaining issues to be decided before enabling the parties to appeal. Any ruling by the District Court as to the validity of LRV's patent following the prior dispositions would have been an advisory opinion only and moreover, the court earlier declined to rule on the issue as a matter of law because of LRV's insistence that the dispute required a trial. And furthermore, York's filings in opposition to the motion precluded summary judgment in favor of LRV.

Thereafter, on April 29, 1999, an appealable final order was entered based on the Orders of February 25th and March 4th. *See*, R.B. App. B, p. 63a. Both parties then appealed. York contends the appeal of its Counterclaim carried with it the right to review the invalidity issue raised therein.

LRV attaches great importance to the disposition of its Motion filed March 12th because there is no other way to justify the refusal of the Federal Circuit to review the invalidity issue. In LRV's App. C, 66a the comments of counsel are in reference to the status of LRV's claims of infringement and York and/or McClarin's defenses to LRV's complaint, amended complaint and counterclaim against McClarin, and not with regard to York's Counterclaim that was concluded March 4. Some confusion may be attributed to the consolidation of LRV's Amended Complaint joining McClarin as a defendant, and McClarin's earlier filed declaratory judgment action against LRV and LRV's Counterclaim for infringement in that action. Counsel anticipated an appeal by LRV and if successful did not want to be precluded from contesting the validity of LRV's patent at a later date.

York submits that when a party is charged with infringement and in a counterclaim asserts that the patent is invalid, the Federal Circuit does indeed have jurisdiction (in fact, it has exclusive jurisdiction) to review and decide the issue and should do so or the issue should be decided in a trial of the Counterclaim. LRV's suit on an invalid patent was one of the foundation elements of York's counterclaim and the jurisdiction of the Federal Circuit to decide invalidity issues in a state law counterclaim is an important public issue.

II. LRV's Second Argument

Also at page 1, LRV assets that "[b]oth the District Court and the Court of Appeals applied 'controlling state law' in dismissing York's counterclaim"; however, LRV cannot deny that the District Court relied on a good faith presumption in favor of LRV in dismissing York's

counterclaim. *See*, App. B, 26a where the District Court noted: "Because a patent is presumed to be valid, 35 U.S.C. § 282, a patentee 'has the presumption of good faith as to his infringement filing'(citation omitted). In various statements of opinion by the District Court one can surmise the presumption was ever present in the analysis of the Court. For example, good faith was attributed to LRV because it successfully resisted a motion for summary judgment that its patent was invalid as a matter of law and the Court held a hearing to interpret the claims; however, neither fact fairly suggests good faith on the part of LRV. One must concentrate on the facts prior to the filing of a suit and not afterwards. In LRV's brief to the CAFC at page 19, LRV directed the Court's attention to the presumption ("Because a patent is presumed valid, 35 U.S.C. § 282, a patentee 'has the presumption of good faith as to his infringement. . .'"

That there is a direct conflict as to this issue between the Federal Circuit and the Ninth Circuit Court of Appeals as pointed out in the petition at pages 16-25 is beyond dispute. Also, LRV has not denied and indeed cannot deny, that in case after case the Federal Circuit has favored patent holders with a presumption against accused infringers when it comes to the latter's effort to obtain redress for baseless charges of infringement. In LRV's brief to the CAFC, LRV made specific reference to the presumption to justify the result reached by the District Court and in the District Court supported its motion for summary judgment by citing *THK America, Inc. v. NSK Co., Ltd.*, 157 F.R.D. 660 (N.D. Ill. 1994), for the proposition that "filing of lawsuit did not constitute antitrust violation, *particularly because patents have presumption of validity and infringement suit is presumed to be brought in good faith.*" (Emphasis supplied.) LRV's Brief in support of Motion for Summary Judgment at page 9.

Undoubtedly at this time LRV would like to avoid responsibility for use of the presumption against York but it is an irrefutable fact that the CAFC has adopted and applied

the presumption and that it was used against York by the District Court and called to the attention of the Federal Circuit by LRV. The CAFC's affirmance was based on the alleged failure of York to prove damages, (App.A, 8a), not withstanding that for six years York was estopped from marketing its own fastener patent in competition with LRV because of LRV's infringement claim.

Further, that the District Court required York to overcome the presumption by clear and convincing evidence is indicated by subsequent statements made by the District Court. LRV, in its brief at page 13, quotes from a proceeding held April 28, 1998 at which time the District Court stated as follows:

> . . . I find *no clear and convincing evidence of gross negligence or bad faith*, on the part of LRV, and during the prosecution of this case, *I find no clear and convincing evidence*, no evidence of — I'll amend that statement to say, no evidence of bad faith conduct or vexatious conduct, on the part of LRV. (emphasis added)

Putting aside that the Court was expressing an opinion on conflicting evidence, the clear and convincing standard of proof in patent law applies to invalidating a patent but otherwise the preponderance test applies. In state law only the preponderance test would apply. The Court's reference to York's need to prove bad faith or gross negligence by clear and convincing evidence can only relate to overcoming the presumption of good faith which the CAFC has grafted onto patent law.

LRV also seeks to belittle the merit of the petition by reference to various statements made by the District Court supportive of LRV's alleged good faith (which are opinions), a two-day evidentiary hearing that the Court conducted at LRV's insistence to determine claim scope and the Court's fifty-page Opinion which LRV included in its appendix. At page 9 of LRV's Brief, it quotes the District Court:

> Reasonable minds could indeed differ as to the conclusion reached on the proper construction of the claims at issue.

However, the foregoing gratuitous comment accords LRV far more credit than is due. The Federal Circuit went directly to the heart of the matter and in about four-pages (App.3a-6a), promptly concluded that LRV could never prove infringement. No limitations were required to be read into the claims and the quoted comment by the District Court only points to the difficulty, confusion or misconception experienced by the District Court despite its effort, consideration and extensive opinion. The Federal Circuit had no need to refer to the hearing testimony any more than York's witnesses to understand from LRV's patent claims that there was not infringement. York and McClarin objected to the hearing as completely unnecessary. (See R.B.App. A, 3a, "LRV pressed for an evidentiary hearing to present extrinsic evidence on claim construction, while York adamantly opposed such a proceeding.") Also see footnote 15, in the same appendix at 30a as to the court's observations concerning LRV's witness at the proceeding.

The point here is not to focus on the difficulty that the District Court experienced in its understanding and analysis of the issues of infringement, patent validity/invalidity, unfair competition or gratuitous comments, but rather, to recognize a truly significant underlying legal issue of national importance that merits review by this Court that goes far beyond this case and applies to all accused infringers.

Finally, LRV also makes too much of the fact that the opinions in this case are unpublished and McClarin was not a party to York's counterclaim. While McClarin is not a party to York's Counterclaim it was charged with infringement by LRV and supports the petition. The fact is clear that underlying the dismissal of York's counterclaim is an important legal issue of great importance to all accused infringers and there is a direct conflict with regard to that

issue between the Federal and Ninth Circuits. The Ninth Circuit, the first to erect the presumption of good faith barrier to federal antitrust claims made by accused infringers against patent holders, later recognized the barrier as unwarranted with regard to state claims against patent holders. Further, the presumption finds no support in decisions of this Court. The time is ripe for review. The presumption of good faith cannot be justified. It is not based on facts or experience; rather, it is a legal device created by the CAFC that discriminates by favoring one party over another — the patent holder over a falsely accused party.

CONCLUSION

For these reasons, as well as those stated in the petition, the writ should be granted.

Respectfully submitted,

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